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RELATIONSHIP BETWEEN INTERNAL CONTROLS PRACTICES AND SERVICE DELIVERY OF COUNTY GOVERNMENTS IN NAIROBI METROPOLITAN AREA, KENYA

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ABSTRACT
Financial management in county governments plays a crucial role in promoting good governance. The national government allocates county governments more than stipulated 15% of national revenue yearly yet 53.0% of them are classified as very poor, 36.1% fall below the national poverty rate and that 34% fall below the national hardcore poverty line. The general objective for this study was to determine the relationship between internal control practices and service delivery of County Governments in Nairobi Metropolitan Area, Kenya. Agency theory and optimal tax theory served as the foundational frameworks for this research. These theories guided the formulation of conceptual framework, informed the study design and methodology, and aided in the interpretation of findings. A cross sectional correlation research design grounded in the philosophy of positivism was employed in this study. Primary data was collected using structured questionnaire. The study's target population was 163 directors from Counties in Nairobi Metropolitan Area, Kenya. Purposive sampling approach was employed to get a sample of 116 respondents. The data was analyzed using descriptive and inferential statistics. Descriptive statistics was used to describe the data while correlation, regression and moderated regression analyses were used to address the objectives of the study. The study found that internal controls practices demonstrated a significant positive relationship with service delivery, with a correlation coefficient (r) of 0.607, a beta coefficient (β) of 0.776 (p<0.05). The study concludes that effective internal controls practices is crucial for enhancing service delivery in the County Governments of the Nairobi Metropolitan Area. This study recommends that, to ensure service delivery, public institutions should focus on internal control practices. This study makes important contribution to the government and to the scholars.

KEY WORDS: *Internal control practices, Service delivery, Nairobi metropolitan Area, Kenya*

INTRODUCTION

According to Mwaura (2013) internal control practices refer to processes of monitoring and evaluation that ensures that resources are obtained and utilized economically, efficiently and effectively. Effective internal controls are crucial for ensuring the integrity of financial and operational processes. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework is widely adopted globally to enhance internal control systems (COSO, 2013).In Africa, internal control systems are often weak, leading to issues such as mismanagement of public funds and corruption. Strengthening internal controls has been identified as a key area for PFM reforms in many African countries (ADB, 2018).According to Karanja (2014), County Governments in Kenya have been implementing internal control measures to enhance accountability and transparency. However, challenges such as limited resources and inadequate training continue to affect the effectiveness of these controls.

LITERATURE REVIEW

Mwaura (2013), did a study on financial accountability and performance of non-governmental organizations in Kenya. For the study, internal control practices involve the processes of monitoring and evaluation, which aim to ensure the

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economical, efficient, and effective acquisition and utilization of resources. These practices are implemented to safeguard assets, prevent fraud and misappropriation, and promote accountability within an organization. A positive correlation was established between financial accountability and financial performance.

Rafindadi & Olanrewaju (2019) carried out a study to establish internal control system and how it affects goal attainment and sustainable management in non-governmental organizations. The study was done In Nigeria. Descriptive survey was used. The sampling method used for this study was multi stage sampling. A questionnaire was used to collect data from a total of 44 respondents. It was established that internal control system has an effect on sustainable manangement of NGOs. The study was done on NGOs and the results may not be generalised to the public sector.

A study was done by Ongunya& Abbey (2019) on the internal control and quality service delivery in a public health sector. Cross sectional research design was used and data was collected from a sample of 125 health facilities in Uganda. The instrument used to collect data was a questionnaire. It was established that internal control had a significant relationship with service delivery in the health service. This particular study was done in Uganda and it focuses on the health service only.

Similarly, Namujja (2020) conducted a study to establish the effect of internal controls and service delivery in the private health service sector. The study area was Kitovu hospital in Uganda. The study used case study and sampled 75 respondents who were purposively selected from strata. From the data collected, it was found that internal controls have an effect on service delivery in the health sector. The study was done in a health sector in Uganda.

A different study was done by Serem (2016) on internal management controls and the efficiency of service delivery. The study area was commercial banks in Kenya and it found that internal control is a very important system for service delivery in commercial banks in Kenya. Three theories were used namely Agency, Attribution and Reliability theories. Descriptive research design was used to collect data from 42 commercial banks. This study focussed only on the banking industry and failed to indicate the relationship between the specific internal controls namely internal audit, risk assessment and control environment activities.

Wangai & Mungai (2019) conducted a study on financial management practices and loan performance of Microfinance Institutions (MFIs) in Starehe Constituency, Nairobi County, Kenya. Agency theory, expectancy theory and trade-off theory of capital structure were used for the study. The study was collected from 86 MFIs and analyzed using multiple linear regression analysis. A significant relationship between internal control systems and performance was established. The above study was done in micro finance institution and there was need to carry out similar study in a county system to establish the relationship between internal controls system and service delivery of counties.

Kibor, Kibati & Kiprop (2019) conducted a study on financial management practices and the financial performance of County Government of Nakuru. For this particular study, two theories were used namely; agency theory and resource-based theory. Data was from 128 employees who served three departments. The study established significant positive relationship between financial performance and financial management practices. From this study, it is recommended strengthening of internal controls which will in turn help them manage their funds. The study was done in a single county and the results may not be generalized to other counties because of operational and governance differences.

Njiru and Bunyasi (2016) did a study to investigate the effect of internal controls on financial performance of Water Service Providers (WSPs) in Kenya. Research design used for this study was descriptive survey. The sampling design used was purposive sampling. The respondents were drawn from various sections in WSPs. The study was guided by agency, institutional and stakeholder's theories. The study found out that internal controls influence the financial performance of WSP.

According to the study by Nwaobia, Ogundajo, & Theogene (2016) on internal audit practices and public financial management in Rwanda and Nigeria, the internal audit function enhances transparency in public financial management and reporting. This research employed a desk/analytical review design and was guided by agency theory and legitimacy theory. The study recommended strict adherence to the policy framework, including guidelines for submitting reports to the auditor general. However, since this study was conducted outside Kenya, its results may not be applicable to Kenya due to differences in government operational models.

Aketch (2019) conducted a study to determine how internal control systems in public funds management affected service delivery at the Nairobi Water and Sewerage Company. This research was guided by resource-based and systems theories and employed stratified probability sampling to select 54 respondents. The analysis revealed that ineffective internal control systems negatively impact service delivery. While Aketch (2019) utilized a descriptive research design, the current study employed a cross sectional correlational research design. Moreover, Aketch's (2019) study was focused on the Nairobi Water and Sewerage Company, whereas the current study was conducted in the counties of the Nairobi Metropolitan Area.

A similar study was done by Banura (2018) to investigate relationship between control environment, risk assessment, monitoring and education service delivery in Busia Municipal Council. The study used case study research design to collect data froma sample of 148 officers in Busia council. The study found a moderate relationship between internal control environment and education service delivery. Further to this, the study established a significant relationship between risk assessment and education service delivery in Uganda. The study was done in Uganda and in an education set up. The current study was done in Kenya and in the county governments. The study by Banura (2018) adopted a case study while the current study used a crosssectional corelational research design.

Lerno (2016) conducted a study to investigate the impact of internal control practices on performance in county governments in Kenya. The research employed a descriptive design and collected data from primary sources, targeting administrators in all county governments across Kenya. The study was guided by three theories: procedural justice theory, agency theory, and attribution theory. The results indicated that while county governments in Kenya have adopted internal control practices, these practices have not fully led to performance improvements.

Rugutt (2019), sought to establish the relationship between public financial management reforms strategy and the performance. The study targeted Bomet, Kericho, Nakuru and Narok County Governments. New Public Management Theory and Agency Theory guided the study. It employed correlational research design where primary data collected from 184 treasury staff. The findings revealed that positive significant correlations between public finance management reforms and performance of the County Governments with coefficients. The study recommended governments to review the existing legal framework reforms and improve IFMIS connectivity as part of the procurement reforms to increase transparency and accountability.

METHODOLOGY

Research Design

In terms of philosophical approach, a positivism research philosophy was adopted in this study. Data was collected from the counties in Nairobi Metropolitan Area, analyzed and interpreted to make conclusions. Positivism helped provide a comprehensive insight on this study. For this study, cross sectional, correlational research design was used. This method enabled the researcher to investigate relationships between variables. The design enabled establishment of relationship between internal control practices service delivery as the dependent variable.

Location of the Study

The study was done in Nairobi Metropolitan Area counties namely Nairobi City, Kiambu, Kajiado, Muranga and Machakos County Governments. NMA serves as a strategic location for both national and international businesses, NGOs, and government agencies. Effective PFM in this region is critical not only for local service delivery but also for maintaining Kenya's position as a regional economic leader. The findings from this study can enhance strategic planning and resource allocation to sustain and improve service delivery (Langabeer & Helton, 2019).

Target Population

The study's target population was the directors who are managerial staff of the departments in the four counties; currently the four counties had 163 Directors. The table below shows the distribution of the target population in the four counties.

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Table: Target Population

County	Directors	Percentage
Nairobi	70	42.95
Kiambu	31	19.02
Kajiado	30	18.40
Machakos	32	19.63
Total	**163**	**100.0**

Source: County Government Reports, (2023)

Sample and Sampling Procedures

The study adopted Yamane, (1967) formula to calculate the sample size.

Yamane's formula:

$n = N/ (1+Ne^2)$

$n= 163/ (1+163*0.05^2)$

n= 116

The study used a sample of directors in all the counties. Each county has directors in every department who are permanently employed. After determining the sample size of 116 directors, to ensure that each county was proportionately represented, proportionate sampling was applied by selecting 116/163 (approx 71%) of directors in each county. In order to determine the participants in each county, simple random sampling technique was applied. The resultant sample size in each county is presented in the table below:

Table: Sample size

County	Directors	Sample size	Percentage
Nairobi	70	50	43.1
Kiambu	31	22	19
Kajiado	30	21	18.1
Machakos	32	23	19.8
Total	**163**	**116**	**100.0**

Source: Research computations, 2023

Data Collection Instrument

According to Nayak & Singh (2021), data collection is a means by which information is obtained from the selected subjects of a given study. A self-administered structured questionnaire was the primary data collection instrument that was used in this study. The data collection instrument had six sections; section A contained background information of the respondents while section B to F contained data on the study variables as per the objectives measured on a five-point Likert scale. The data collection instrument is in appendix II.

Validity of Research Instrument

To ensure validity of the instrument, the instrument was given to the supervisors and scholars in finance field to check on content of the research instrument. Construct validity was also measured by including all the variables that were derived from the literature in the data collection instrument. In addition to this, experts in the field of finance were used to validate the questionnaire before administering it to the respondents.

Reliability of Research Instrument

To ensure reliability, first pilot testing was conducted. **A** small, representative sample with ideally similar conditions to the main study population in terms of characteristics was selected then; the research instrument was administered to this pilot sample of 10 directors from Muranga County under conditions that closely resemble those of the actual study. Muranga County was chosen since it is a member of Nairobi Metropolitan Area and therefore has similar characteristics with the target population as explained by Sürücü & Maslakçi (2020).

Data Collection Procedures
The Questionnaires were distributed physically to the respective respondents who were located in different departments in different counties within Nairobi metropolitan Area. These questionnaires were picked after the respondents had completed filling them.

Data Analysis and Presentation
For this study descriptive analysis was used to analyze descriptive statistics to show the means, modes and medians of the data. For the inferential statistics, correlation analysis was done using SPSS version 22.

Model of Analysis
The data was analyzed using the following models:
A simple regression model was used to analyze data and was represented as shown in the equation below:

$$Y = \beta_0 + \beta_2 X_2 + \varepsilon$$

Where;
Y is the service delivery
β_0 represents the constant term,
β_2, is the beta value for the independent (Internal Control Practices). This indicates the value of service delivery by a unit change in Internal Control Practices
$X_2$is Internal Control Practices
εRepresents the error term

Ethical Considerations
Informed consent was sought from the participants, who were fully informed about the study's purpose, procedures, potential risks, and benefits. Participants were assured of their right to withdraw from the study at any time without any negative consequences. The study also adhered to the principles of beneficence, ensuring that the research did not harm participants, and justice, ensuring that the selection of participants was fair and unbiased. These ethical safeguards were implemented to protect the rights and well-being of the participants and to uphold the ethical standards of academic research. This

RESULTS
Descriptive statistics
This variable was measured using audit committee, implementation of projects as planned, availability of automated internal accounting system, rewards to individuals detecting frauds, risk measurement and reporting framework and authorization of transactions by designated staff. The descriptive statistics for this variable is presented in table below:

Table: Descriptive Statistics on Internal control Practices

Statistics	Audit committee	Implement as planned	Automated accounting systems	Rewards are given	Risk management reporting framework	Financial authorization
N	116	116	116	116	116	116
Mean	3.70	2.48	3.04	1.70	2.87	4.31
Median	4.00	2.00	3.00	1.00	3.00	5.00
Mode	4	2	3	1	3	5
Std. Dev	1.136	1.009	1.410	.944	1.076	1.017
Min	1	1	1	1	1	1
Max	5	4	5	4	5	5

Source: Research Data (2024)
From the data analyzed, the mean for the audit committee was 3.70 with a median of 4.00, the mode was 4, and standard deviation was 1.136. The maximum value was 5 and a minimum of 1. The mean for the indicator on implementation of projects as planned gave 2.48 as the median of 2.00, the mode was 2, and standard deviation was

1.009. The maximum value was 4 and a minimum of 1. For the automated accounting system, the mean was 3.04, the median was 3.00, and the standard deviation was 1.410 with maximum value of 5 and 1 as the minimum.

For the rewards given as an indicator, the mean was 1.70, the median was 1.00, the mode was 1 with standard deviation of 0.944 and a maximum value of 4 and minimum value of 1. For the risk management reporting framework, the mean was 2.87, the median was 3.00, the mode was 3, and standard deviation was 1.076. The maximum value was 5 and the minimum value was 1. For the financial absorption the mean was 4.31, the median was 5.00, the mode was 5, the standard deviation was 1.017 and the minimum value was 1 and the maximum was 5.

Inferential statistics
A simple linear regression analysis was conducted to test if internal control practices significantly predicted service delivery outcomes. The results are presented in table below;

Table : Relationship between Internal Control Practices and Service Delivery

Coefficients[a]							
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	
		B	**Std. Error**	**Beta**			
1	(Constant)	.420	.295		1.422	.158	
	Internal control practice	.776	.095	.607	8.146	.000	
	R						0.602
	R-Squared						0.368
	Adjusted R-Squared						0.362
	F-Sig						0.000
	F Change (1,114)						66.353
a. Dependent Variable: Service delivery							

Source: Research Data (2024)
The results in Table 4.13 show that, the fitted regression model was: Service Delivery = 0.420 + 0.776*(internal control practices). The overall regression was statistically significant ($R^2 = .368$ $F(1, 114) = 66.353$, $p < .000$). It was found that internal controls significantly predicted service delivery ($\beta = .776$, $p < .000$). This finding suggests that there was up to 0.776 unit increase in service delivery for each unit increase in internal control practices. The second hypothesis stated that;
Ho_2: Internal Control Practices had no significant relationship with service delivery.

This hypothesis was therefore rejected as the study established that internal control practices significantly influenced service delivery.

The R-squared value for the regression model is 0.368, indicating that 36.8% of the variance in service delivery can be explained by internal control practices while other factors not accounted by the model accounts for 63.2%. This suggests a substantial relationship between internal control practices and service delivery.

The overall regression model is significant with an F (1, 114) = 66.353 and a p-value less than 0.000. This implies that the model is a good fit for the data and that internal control practices significantly predict service delivery. The beta coefficient for internal control practices is 0.776, with a p-value less than 0.000. This finding shows that for every unit change in internal control practices, there is an increase of 0.776 in service delivery. This indicates a strong positive relationship between internal control practices and service delivery, suggesting that improvements in internal control practices are associated with better service delivery outcomes. The resultant equation for the model is as follows:
$SD = 0.420+0.776ICP$……………………………………………………………(Eq 1)
Where
SD: = Service Delivery (Dependent Variable)
ICS: = Internal Control Practices (Independent Variable)

These findings are related to the findings of other studies. Mwaura (2013) studied on financial accountability and performance of non-governmental organizations (NGOs) in Kenya found a positive correlation between financial accountability and financial performance. It is noted, however, that Mwaura's study was based on NGOs and correlated to performance. The findings of the current study therefore reinforces the idea that robust internal controls, which are part of financial accountability, positively correlates to performance, including service delivery in the public sector. Rafindadi & Olanrewaju (2019) in a study conducted in Nigeria examined how internal control systems affect goal attainment and sustainable management in NGOs. Using a descriptive survey and multi-stage sampling, the study found that internal control systems significantly affect sustainable management. The related studies in the extant literature focused mainly on private and non-governmental organizations. Therefore, this finding adds new evidence on the relationship between internal control practices and service delivery.

Summary of the Findings

The overall objective of the study was to determine the relationship between internal control practices and service delivery of County Governments in the Nairobi Metropolitan Area, Kenya. From the findings, internal controls practices also demonstrated a significant positive relationship with service delivery, with a correlation coefficient (r) of 0.607, a beta coefficient (β) of 0.776, and a p-value less than 0.05.

Conclusions of the Study

Based on the findings of this study, internal controls practices were also found to have a significant positive relationship with service delivery, with a correlation coefficient ($r=0.607$; $p<0.05$) and a beta coefficient ($\beta=0.776$; $p<0.05$). This finding highlights the critical role of robust internal controls in enhancing accountability, transparency, and efficiency in the management of public resources. Effective internal controls help prevent fraud, waste, and abuse, thereby ensuring that public funds are used for their intended purposes and improving overall service delivery.

Recommendations

Based on the conclusions drawn from this study, the study makes recommendations that are proposed to enhance internal control practices and service delivery in the County Governments of the Nairobi Metropolitan Area, Kenya. The strong positive relationship between internal controls and service delivery highlights the need for robust internal control systems. County governments should conduct regular audits, establish clear financial procedures, and enforce strict compliance with financial regulations. Additionally, the adoption of technology, such as integrated financial management information systems (IFMIS), can enhance the efficiency and effectiveness of internal controls.

Recommendations for Further Studies

While this study has provided significant insights into the relationship between internal control practices and service delivery in County Governments of the Nairobi Metropolitan Area, Kenya, several areas warrant further investigation. The following recommendation for future research is proposed; there is need to explore additional factors beyond internal control practices that may impact service delivery. While this study focused on specific internal control practices, other factors such as political stability, governance structures, and socio-economic conditions might also play crucial roles in service delivery.

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